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Health 'n Wealth

Autumn 2015

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Retirement living: oh, so many choices!

Approaching retirement? Perhaps you're already there and it's time to do something different – maybe radical, like selling up and moving?

Older Australians are living healthier, more active lives. Choosing the most lifestyle-appropriate housing can be a dilemma. Downsizing is emotional – family homes hold years of memories. Yet doing so may free up enough capital to fulfil all of your lifestyle dreams.

According to a recent Seniors Housing Online survey, 97% of retirees are keen on independent living (no surprise there), 78% would like to live in a community environment with recreation facilities, and 60% want their pets with them.

Before making the jump, let's look at a few popular options.

Retirement villages / Lifestyle resorts / Over 50s villages:

Community living can provide on-site security, emergency systems and staff to meet residents' every need. Some villages include facilities such as cafes, pools, restaurants and cinemas. Style of housing varies from high-rise apartments to single or multiple bedroom villas; the choices are becoming endless as demand increases.

Units are sold by lease arrangement or freehold. What's the difference?

	Lease	Freehold
Ownership	Operator holds title	Resident holds title
Stamp duty	N/A	Resident pays
Maintenance	Operator responsible	Residents are responsible for maintenance/repairs to internal fixtures of unit. Body corporate is responsible for roof, walls, grounds and common areas.
Refurbish-ment	Operator pays all or some of the refurbishment costs.	Resident responsible.
Title deeds	N/A	Under a strata title operator may retain.

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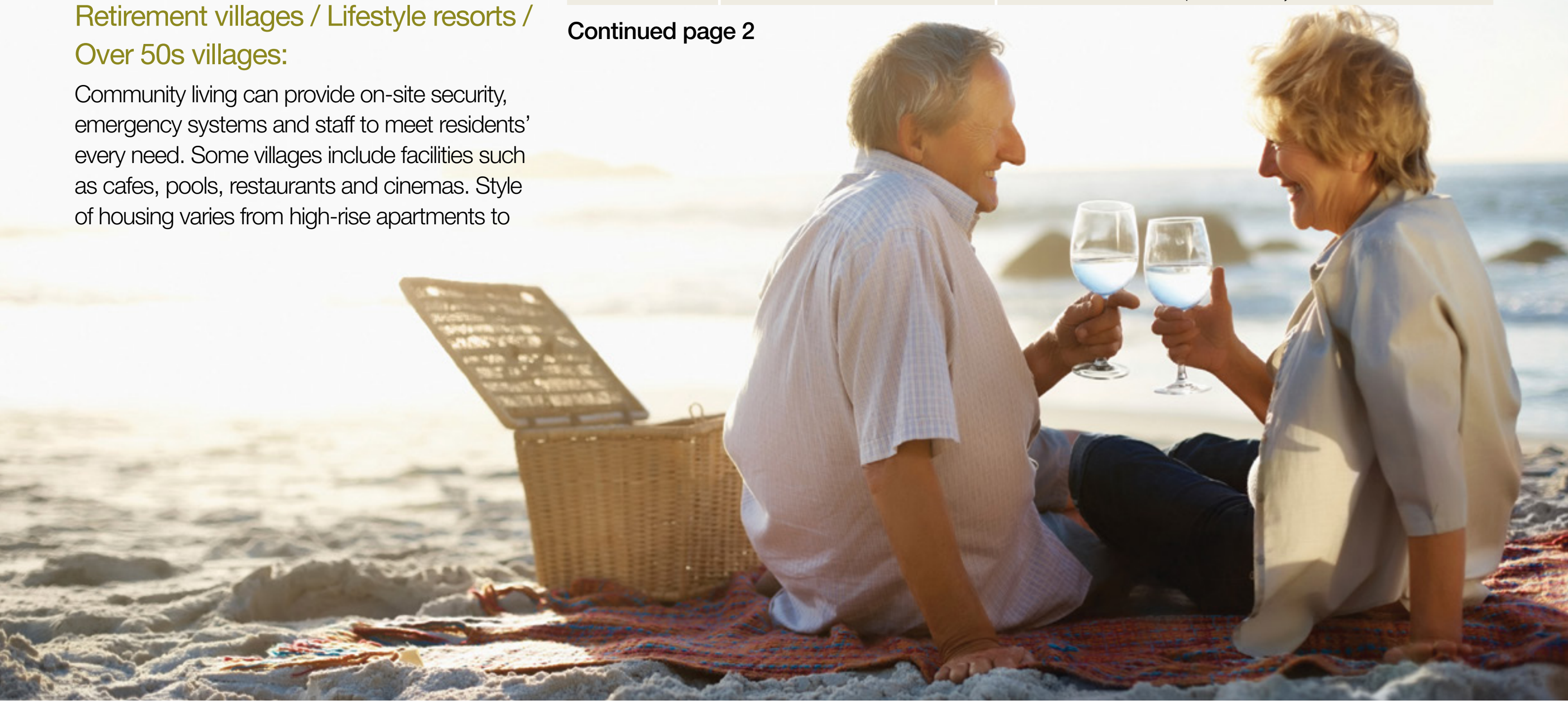

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Room to rent? The ATO might be interested.

Renting out a spare room can be a great way to earn some extra cash. However, it's easy to overlook the fact that the rent you charge, even on short-term stays, is taxable income. It needs to be declared on your annual tax return and, depending on your total income you may need to pay tax on what you earn. On the other hand, the deal might be sweetened with tax deductions.

Take a chance?

You might want to take a chance on not declaring this additional income, but the Australian Tax Office (ATO) has sophisticated data matching capabilities. They can find you by checking your financial records, searching ads on rooms-for-rent websites and checking electronic payments associated with these websites. They can also act on tipoffs from unfriendly neighbours.

On the upside, the expenses you incur in renting out a room or granny flat may be tax deductible. These can include a portion of your power bill, mortgage and council rates through to the sheets on your lodgers' bed, room improvements and depreciation.

Capital gains

Renting out a room can have another tax consequence. The portion of your house used for income-producing purposes will become assessable for capital gains tax when you sell your home. Put simply, if you let out 20% of your house for the entire time you own it, and if you make a capital gain of $100,000 when you sell, then $20,000 would be your taxable capital gain. Assuming you own your home for more than 12 months, this will be eligible for a 50% discount, so $10,000 would be added to your taxable income and taxed at the appropriate rate.

Strangers, friends and family

The status of rental income is pretty clear when you advertise for a long-term lodger or short-term guest, but what about friends and family? With adult children taking longer and longer to save for a home of their own, an increasing number are staying at home and often paying board. And what about Mother-in-law in the granny flat out the back?

Provided the amounts involved reasonably reflect the actual costs, contributions from children and elderly parents are considered a family arrangement for sharing living expenses, so don't need to be declared.

Get the right advice

Don't let a few tax issues put you off renting out a room to boost the household kitty. Do, however, take the time to discuss your plans with us or your registered tax agent. If you are caught out trying to dodge what may be a modest tax bill, you could end up paying an extra 75% on top of the tax you owe plus interest.

Do the right thing though, and aside from the extra income, new friendships and the pleasure of sharing the secrets of your hometown await.

Retirement living: oh, so many choices!

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With any retirement village, standard costs apply.

These include:

- Entry fee for lease/purchase price for freehold;
- Service/maintenance fee (variable depending on property type and facilities);
- Exit fee for lease – also known as a departure or deferred management fee.

Important: Retirement village contracts can be complex. It's imperative that you speak to your financial adviser and a solicitor before making any final decisions.

Granny flats

These structures can provide a nice opportunity to be closer to your family and have a role in the lives of your grandkids.

With so many designs available they can be erected on most residential-zoned blocks. Costs start from around $20,000 for flat-packs to designer units to match your budget. Additional costs include cement slabs, site preparation and connections. Do your homework before making any decisions including contacting your local council to check regulations.

Caravan/motor home

Are the wide open spaces calling and it's time to hit the road? Living as a grey nomad sounds romantic, but consider the following before trading your home for one with wheels:

- What if you become ill or need emergency medical attention? Make sure you have appropriate insurance cover.
- Can you maintain the vehicle? What if it breaks down "out the back of Bourke"?
- What will you do with your furniture, belongings, etc? Factor in long-term storage.
- Motor homes and caravans, like cars, depreciate very quickly, especially if you're planning to travel far and wide. When you've gotten the road bug out of your system and want to return to a fixed address, be aware that you may not sell your wheels for as much as you'd planned. This will have an impact on affording your next home.

With so many options available (this article is just the tip of the iceberg), ask us to help you achieve the one that suits you best. After all, sixty is the new fifty and there's living to be done!

Buying your kids a home – good idea or bad?

Owning your home has long been considered the Australian dream, but the changing property market is helping to ensure that it remains just that for many young people.

Even with the introduction of initiatives such as the First Home Owner Grant and First Home Saver Accounts, housing ownership remains unaffordable to many.

Research by the International Monetary Fund shows that Australia's property prices have rebounded since the dark days of 2008 by a staggering 25%. Furthermore, it reports that Australia has the third highest house price-to-income ratio in the world. It is due to this lack of affordability that many younger prospective home buyers are asking their parents for assistance in fulfilling their home ownership dreams.

The pitfalls

Whilst parents who buy a house for their children do so with the best of intentions, there are hazards that may befall the unwary. These include:

- Tax consequences – how the property will be treated for tax purposes depends on whether rent is charged. If the child pays rent, expenses will be tax-deductible, but capital gains tax will be payable if the property is sold.
- Opportunity cost – many parents may not be doing themselves any favours if their own financial well-being and security is compromised by their generosity. Relying on retirement savings to purchase a property later in life could be a decision later regretted.
- Government benefits - if the property is owned by the parents, both the asset and any income will be included when calculating eligibility for Centrelink entitlements. Alternatively, should the property be placed in the name of the child, it will be considered a gift, meaning that the amount over the gifting limit will be deemed for up to five years. This can affect the level of benefits the parents might receive.

Alternative options

It's not all doom and gloom though. There are ways for parents to assist their children enter the property market that can also help to deliver valuable life lessons. These include:

- Gifting a deposit – instead of buying the whole property, gifting the deposit can often be sufficient to help offspring obtain finance, with the child taking responsibility for loan repayments. Furthermore, this option can address Centrelink concerns, and lessen the impact on the parents' financial security.
- Acting as guarantor on a loan – this involves using the parents' assets as security for all or part of their child's home loan.
- Buying the property together – this arrangement generally involves parents providing a deposit, with the ongoing costs of the property being split between the parents and the child.

Put it in writing

There is a range of legal issues to be considered before entering into these arrangements. The rights and responsibilities of each party should be clearly and formally documented and address key decisions. These include, but are not limited to,

- who is responsible for ongoing maintenance and costs on the property;
- what to do if either party wishes to terminate the arrangement;
- what happens if the child cannot meet repayments;
- how the property will be held when/if the child marries/divorces; and
- what happens to the property when the parents pass away.

Helping out your kids might seem like a good idea, but it is important that professional advice is sought first. We can help you to explore the available options to ensure that you find the solution that best suits your family's circumstances.

Debt recycling in action

Most of us don't think twice about recycling our plastics and paper waste to help save the environment, but what about recycling debt? Is that a good way to save money?

Debt recycling is the process of replacing mortgage debt, or bad debt, with investment debt, which is known as good debt.

This strategy enables investors to start building wealth while they're still paying off their home. As equity is built up in their home, funds are re-drawn and invested. Income from these investments can be used to further reduce the mortgage balance, while the growth component contributes to wealth accumulation.

This is how debt recycling worked for one couple.

Josh and Sara have built up considerable equity in their home, and upon advice from their financial planner decided to make that equity work harder for them. The couple currently owes $240,000 on their home, which is valued at $400,000. Their licensed planner recommends Josh and Sara implement a debt recycling strategy, refinancing their current loan to give them a $300,000 loan limit. This releases $60,000 of available equity for investment.

Josh and Sara's planner recommends they invest their $60,000 equity into a portfolio of managed investments specifically chosen for income potential. After one year, their portfolio has grown in value to $65,000, and yielded an income of $4,000 which is used to reduce their mortgage further. After regular loan repayments, their mortgage balance is $230,000 after the first year. The couple then draw the extra $10,000 in equity to make an additional contribution to their investment portfolio. This process is repeated each year until their mortgage is extinguished.

Debt recycling can benefit investors prepared to invest not just funds, but also time and patience. To learn if it would be appropriate for you, contact us.

Laughing your way to good health

If you hate sayings like "laughter is the best medicine", it's time to lighten up because aside from being true, it shows that you've lost your sense of humour!

It is said that six-year-olds laugh on average 300 times per day but by the time we reach adulthood we've reduced our daily giggles to just 15… if we're lucky! So what? you might ask, what's there to laugh at? Well, it's not just a case of what there is to laugh at, but what happens when we forget to laugh. Basically, life becomes a drudge.

It's a bit of a Catch-22 situation - by focusing on the constant bad news we're exposed to via the 24/7 media, it can become difficult to raise a smile. So it might be time to rise above the doom and gloom, turn the TV off, hide your smartphone in a drawer and pick up a comic or a Dr Seuss book. Perhaps read some of the jokes your friends have emailed to you but you were "too busy" to read!

Making this enjoyable change can even help you on your fitness or weight loss campaign. Consider this:

- Dr William Fry of Stanford University found that laughing 100 times burns off the same amount of calories as 10 minutes on a rowing machine!
- After a good belly laugh, blood pressure drops to a lower, healthier level than before the jocularity began.
- Laughter oxygenates your blood, thereby increasing energy levels, relaxes your muscles and works out all your major internal systems such as your cardiovascular and respiratory systems.

So the next time you're feeling guilty about missing your daily exercise, go and find something funny and have a good belly laugh. It will be more fun, it's free and you might just live a longer and happier life!

Here's some exercise for you…

An elderly Irishman lay dying in his bed. While suffering the agonies of impending death, he suddenly smelled the aroma of his favourite chocolate chip cookies wafting up the stairs. He gathered his remaining strength, lifted himself from the bed and shuffled slowly down the stairs.

With laboured breath, he leaned against the doorframe, gazing into the kitchen. Were it not for death's agony, he would have thought himself already in heaven, for there, spread out upon waxed paper on the kitchen table were literally hundreds of his favourite chocolate chip cookies. Was it really heaven? Or was it one final act of heroic love from his devoted Irish wife of 60 years, seeing to it that he left this world a happy man?

Mustering one great final effort, he lurched towards the table. His aged and withered hand trembled as he reached for a cookie, when his wife suddenly appeared and smacked it with a spatula. "Bugger off" she said, "they're for the funeral".